

Hospitals with an aggregate operating margin of greater than 0.00 percent, when calculated from the three most recent audited financial statements, are eligible for mortgage insurance. The formula for the aggregate operating margin is below:

$$\text{Operating Income(Year 1)} + \text{Operating Income(Year 2)} + \text{Operating Income(Year 3)}$$

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$$\text{Total Operating Revenue(Year 1)} + \text{Total Operating Revenue(Year 2)} + \text{Total Operating Revenue(Year 3)}$$

*Operating revenue* is the revenue from the core patient care operations of the hospital. It includes revenues from the provision of patient care, transfers from temporarily restricted accounts that are used for current operating expenses, and patient-related activities such as the operation of the cafeteria and parking facilities. OHF's calculation of *operating revenue* excludes sources of revenue (contributions, grants, and investment income) that are not reliable sources of future revenue. *Operating income* equals *operating revenue* minus *operating expenses*.

The calculations should exclude the operations of affiliates/subsidiaries/business lines that will not be collateral for the insured mortgage.

When the hospital's proposal includes refinancing existing debt with proceeds from the HUD-insured loan, HUD will use an estimate of projected interest rate(s) in lieu of the historical interest rate(s) when calculating the operating margin for prior periods.

If the hospital does not meet the Operating Margin criterion, but has undergone a financial turnaround that has resulted in a positive operating margin in the most recent year, the hospital may be eligible for hospital mortgage insurance. This exception to the Operating Margin criterion requires that the hospital demonstrate a positive operating margin in the most recent year (as demonstrated in the most recent audited financial statements) at the time of application and that the hospital demonstrate two years of positive operations (as demonstrated by two audits) at the time of HUD's commitment to insure.

For assistance calculating the operating margin, [please use the Operating Margin and DSC Worksheet available here](#) .

If, based on your calculations, the hospital meets the operating margin requirement, please click "Yes" when answering this question.